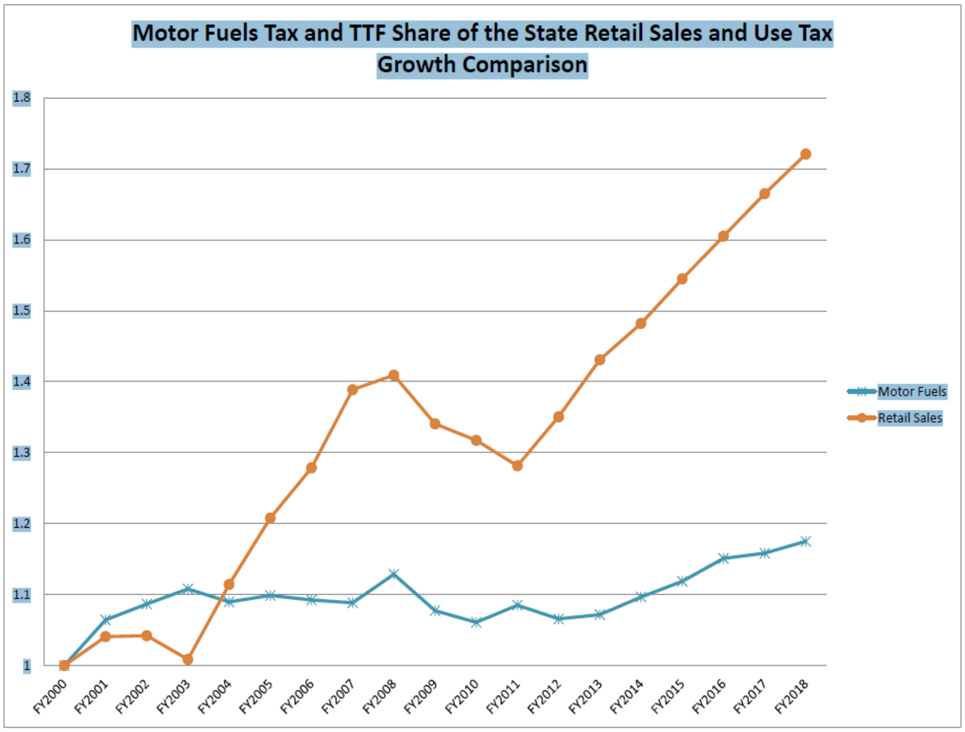
Virginia's Road to the Future
Governor McDonnell's 2013 Transportation Funding and Reform Package

• No More Gas Tax
• A Sustainable, Long-Term Funding Solution
• Increased Money for Roads, Rail and Transit

Governor McDonnell's 2013 Transportation Funding and Reform Package is intended to solve the short and long-term transportation funding needs of the Commonwealth of Virginia. Declining funds for infrastructure investment, stagnant motor fuels tax revenues, increased demand for transit and passenger rail, and the growing cost of major infrastructure projects necessitate enhancing and restructuring the Commonwealth's transportation program and the way it is funded. The challenge Virginia faces is a math problem. The current revenues numbers do not add up to a safe, efficient and sustainable transportation network. The time to act is now.

Over the course of the next five years, the plan will generate over $3.1 billion in additional funding to be invested in the Commonwealth's transportation network.

Option	**2014**	**2015**	**2016**	**2017**	**2018**	**5-Year Total**
Replace 17.5 cents/gallon tax on gasoline with 0.8% NGF SUT increase (excludes food, but 17.5 cents/gallon tax on diesel retained)	$24.6	$109.3	$131.8	$158.4	$182.9	**$607.0**
Increase existing SUT commitment from 0.5% to 0.75% over 5 years	$49.0	$101.7	$158.4	$219.2	$283.2	**$811.5**
$15 Increase in Registration Fees	$109.4	$109.4	$109.4	$109.4	$109.4	**$547.0**
$100 Alternative Fuel Vehicle Fee	$10.2	$11.4	$13.0	$15.0	$17.0	**$66.6**
Market Place Equity – Transportation	$175.7	$199.1	$207.0	$214.8	$222.2	**$1,018.8**
Market Place Equity – Local Trans	$23.7	$26.9	$28.0	$29.1	$30.1	**$137.8**
Yearly Total	**$392.6**	**$557.8**	**$647.6**	**$745.9**	**$844.8**	**$3,188.7**



Math Problem Background

- In 1986, the Virginia General Assembly increased the motor fuels tax on gasoline to 17.5 cents per gallon (§ 58.1-2217).
- **Motor fuel tax revenues are the largest source of maintenance funds.** 85 percent of the motor fuels tax on gas is deposited into the Highway Maintenance and Operating Fund (HMOF) for maintaining the state's highway infrastructure. The remainder of the motor fuels tax (15 percent) is deposited into the Transportation Trust Fund (TTF
- The legislature has not provided for adjusting the fuels tax rate for inflation. This lack of an inflation factor has had a negative impact on Virginia's ability to maintain its roadways.
  - **17.5 cents in 1986 dollars is currently worth approximately 8 cents.** Consequently, the purchasing power of Virginia's gas tax revenues has declined by 54 percent.
  - At the same time, the Virginia Department of Transportation (VDOT) has been confronted with substantially higher asphalt prices, a key component in road maintenance. **Since 2002, the binder price for asphalt has increased 350 percent.**
- Despite increases in the number of registered vehicles traveling Virginia's roadways and vehicle miles being traveled each year, both of which are indicators for growing maintenance needs, the growing number of alternative fuel vehicles and increasing CAFE standards mean **Virginia is deriving less revenue from each vehicle traveling its roadways.**
- Currently there are 91,000 alternative fuel vehicles in Virginia. These vehicles pay little to no gas tax, yet cause a similar amount of damage to Virginia's roadways as conventional fuel vehicles. As gas

prices continue to increase and more people turn to alternative fuel vehicles, the amount of revenue lost will continue to grow.

- According to the U.S. Energy Information Administration (EIA), the average fuel economy of passenger vehicles on the road in 1986 was 10.5 miles per gallon. The current goal is to increase the required average industry fleet-wide basis for cars and trucks to 40.1 miles per gallon in 2021 and 49.6 miles per gallon in 2025. To achieve this combined average passenger cars will need to average 56 miles per gallon, while light trucks will have to average 40.3 miles per gallon by 2025.
- **The declining value of the gas tax, combined with increased use of alternative fuel vehicles and growing CAFE standards, are contributing to state maintenance crossover.**
    - From 1986 until 2001, excess or surplus revenues in the HMOF were transferred to the highway construction portion of the TTF to support construction.
    - Since 2002, over $3.3 billion has been transferred from the construction share of the TTF to the HMOF to address maintenance deficits. These transfers are referred to as the state "crossover."
    - For FY 2011 and FY 2012, these transfers totaled $511 and $448 million, respectively.
    - Through administrative actions, state crossover transfers have been reduced to $364 million for FY 2013; however, they are expected to increase to over $500 million by FY 2019.
    - These transfers deplete the available state funding for capacity expansion, congestion mitigation, and major reconstruction and rehabilitation projects.
- In addition, Virginia's passenger rail and transit funding needs are also growing.
    - Beginning October 1, 2013, Virginia must assume all capital, maintenance and operations costs associated with Amtrak regional intercity passenger rail service pursuant to Section 209 of the Passenger Rail Investment and Improvement Act.
    - In 2011, the General Assembly passed, and Governor McDonnell signed into law, legislation creating the Intercity Passenger Rail Operating and Capital Fund; however, no dedicated revenues were provided. Without dedicated revenues for intercity passenger rail, Virginia will need to divert revenues from other critical areas of need or shut down current passenger rail services.
    - Additionally, transit ridership is up nine percent over the past three years, and new services such as the Norfolk Tide, the Lynchburg-Roanoke Amtrak Bus Bridge, and the expansion of VRE into Spotsylvania are increasing Virginia's transit funding needs.

Adjustments to the Motor Fuels Tax

- The Governor's Transportation Funding Plan will eliminate the 17.5 cents per gallon tax on gasoline and replace it with a 0.8 percent increase in the Sales and Use Tax. This additional percentage on the sales tax will be dedicated exclusively to transportation.
- Over the next five years, converting to a 0.8 percent sales and use tax will generate new revenues when compared to what is currently generated by the gas tax:

Policy	2014	2015	2016	2017	2018	5-Year Total
0.8% SUT Increase (excludes food and fuel)	$708.7	$803.3	$835.5	$867.2	$869.7	**$4,111.4**
Eliminate 17.5 cents/gallon tax on gasoline	($684.1)	($694.0)	($703.7)	($708.8)	($713.8)	**($3,504.4)**
Additional Funding for Transportation	$24.6	$109.3	$131.8	$158.4	$182.9	**$607.0**

- Converting to the sales and use tax as the principle source of state funding for transportation has a number of policy and practical benefits.
    - Unlike most sources of general fund revenue – such as the personal and corporate income taxes – gas tax revenues do not fluctuate with economic activity and keep pace with inflation. This change will treat transportation's principle revenue stream the same as the other primary state revenue streams, so that it **fluctuates with economic activity and accounts for inflation.**
    - **Eliminating the gas tax and relying on the sales and use tax addresses the long-term challenge posed by alternative fuel vehicles and CAFE standards.** While an increase in the gas tax rate or indexing the gas tax would provide additional funding in the short-term, it would not address these long-term challenges.
    - Over the course of the past 4 years, gas prices have grown from less than $2 per gallon to close to $4 per gallon. **Eliminating the gas tax will reduce the price per gallon paid at the pump.**
    - The gas tax is regressive in that those living in rural Virginia who have to drive further to get to work, school, or the store are forced to pay more, yet do not have the same transportation challenges facing the more populous parts of the state.
    - Converting to the sales tax ensures that all Virginians contribute to the transportation network from which they benefit.
    - Even with the additional 0.8 percent sales tax, Virginia's overall sales tax rate of 5.8 percent would still be below D.C. (6 percent), Maryland (6 percent), Tennessee (7 percent), West Virginia (6 percent) and North Carolina (6.75 percent to 7 percent).
- Most importantly, converting to the sales tax will provide for more significant long-term growth in the Commonwealth's transportation revenues.

Retaining the Motor Fuels Tax on Diesel

- While Governor McDonnell's Transportation Funding Package will eliminate the 17.5 cents per gallon tax on gasoline, it will retain the 17.5 cents per gallon tax on diesel fuel. Over the next five years, the diesel fuel tax will generate the following based on current forecasts:

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$187.0	$195.3	$203.7	$213.8	$224.4	$1,024.2

- The majority of diesel fuel is consumed by truckers. Approximately 68 percent of diesel fuel tax revenues are paid by interstate trucking companies.
- Studies indicate that additional damage is caused by trucks on Virginia's roadways.
  - According the Virginia Center for Transportation Innovation and Research, the damage caused to a roadway doubles when axle weight increases by just 4,000 pounds from 20,000 pounds to 24,000 pounds.
  - Researchers at VCTIR found that while passenger cars accounted for about 77 percent of the daily vehicle miles traveled (DVMT) in Virginia, they were responsible for only 0.3 percent of the load-induced damage-miles on the Commonwealth's roadways. In comparison, five-axle tractor-semitrailer combinations—the most common configuration for commercial vehicles hauling freight—accounted for only 4.2 percent of DVMT, but were responsible for nearly 80 percent of the load-induced pavement damage-miles.
- Retaining the diesel fuel tax will ensure that the trucking community contributes financially to address the impact they have on Virginia's highway networks.

Incremental Sales Tax Commitment

- Transportation is a core function of government. Children can't get to school; the sick and elderly can't get to the medical care they need; and businesses can't move their goods without an adequate and efficient transportation system.
- The governor's plan recognizes this, and increases transportation's share of the existing state sales and use tax from its current 0.5 percent to 0.75 percent, excluding the sales tax on food.
- This additional sales tax commitment will be phased in over five years, increasing by 0.05 percent each year beginning in FY 2014 through FY 2018.
- For FY 2014, the additional sales tax commitment will generate $49 million, or less than three-tenths of one percent of the entire FY 2014 budget.
- The funds generated by this commitment will be deposited in the HMOF.
- **This, coupled with the 0.8 percent SUT increase, will ensure that the crossover of state funds from the TTF to the HMOF will end by 2019. This will mean over $500 million more in highway construction funding per year**
- Over the course of the next five years, the additional sales tax commitment will generate:

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$49.0	$101.7	$158.4	$219.2	$283.2	$811.5

Increasing Registration Fees

- Because the motor fuels tax principally goes to funding maintenance of the Commonwealth's highways, Virginia relies on other revenue sources to fund other transportation modes.
- To help provide additional funding to passenger rail and transit, Governor McDonnell's plan will increase the annual registration fee on motor vehicles by $15.
- Half of the funds will be dedicated to supporting and expanding intercity passenger rail in Virginia. This includes providing service to Roanoke in Southwest Virginia.
- Changes to federal law require Virginia to undertake greater financial support for Amtrak services.
- Half of the funds will be dedicated to supporting the ever growing transit needs in the Commonwealth. In the next few years, new services are expected in Hampton Roads and Northern Virginia.
- These funds will also enable the implementation of proposed performance measures for transit.
- This increase will generate:

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$109.4	$109.5	$109.4	$109.4	$109.4	$109.4

Alternative Fuel Vehicles Fee

- The governor is a strong supporter of alternative fuel vehicles. He has directed that Virginia's state fleet be converted to natural gas vehicles. And he knows that alternative fuel vehicles will only continue to grow in popularity and usage in the years ahead.
- In fact, over the past four years, as gas prices have grown from less than $2 per gallon to as high as $4, more and more Virginians have turned to alternative fuel vehicles.
- There are over 91,000 of these vehicles currently registered in Virginia. This is a great development for energy security and conservation. But it does present a challenge to how transportation funding has been derived in America for the past century. Drivers of alternative fuel vehicles fill up far less, or rarely at all. This means they pay little to no state or federal gas tax.
- These vehicles still have the same impact on Virginia's roadways as conventional fuel vehicles.
- While the governor's plan will eliminate the Virginia gasoline tax, the federal gas tax of 18.5 cents will remain. The majority of federal gas tax revenues are returned to the states for transportation projects, and Virginia typically receives approximately $1 billion per year in federal gas tax revenue. And the more alternative fuel vehicles on the road, the less of a share Virginia will get of that federal tax.
- Therefore, the governor's plan proposes an additional $100 fee for alternative fuel vehicles to ensure that these drivers continue to contribute to Virginia's transportation networks, which they use every day.
- Over the next five years, this fee will generate:

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$10.2	$11.4	$13.0	$15.0	$17.0	$66.6

Marketplace Equity Act

- The 113th Congress will soon be considering several pieces of legislation – most notably the Marketplace Equity Act – that would grant states meeting specified simplification requirements the authority to compel remote sellers to collect sales tax for the state into which sales are made.
- The federal proposals generate require the state to (1) make software and services available that identify the state's applicable sales tax rates; (2) require only one audit for all taxing jurisdictions in the Commonwealth, and one sales and use tax return for each remote seller; and (3) provide an exemption from the requirement for remote sellers with annual sales under a specified amount.
- Governor McDonnell's 2013 Transportation Funding Package will conform the Code of Virginia to the pending federal changes. The changes would be contingent upon the Marketplace Equity Act being adopted by Congress by July 1.
- These changes are not a tax increase. The revenue from the Marketplace Equity Act is revenue that Virginia should already be collecting.
- The Marketplace Equity Act is widely supported by both Republican and Democrat members of Congress and governors nationwide, as well as many members of Virginia's congressional delegation, and it is fully expected that the act will become law by July 1.
- Once adopted by Congress, the Marketplace Equity Act is projected to generate the following additional revenue over the next five years: Governor McDonnell's 2013 Transportation Funding Plan will allocate a portion of these revenues not only to transportation, but also to other critical areas of need.

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$276.5	$313.4	$326.0	$338.3	$349.9	$1,604.1

- **1.125** cents of the 5.8 cent sales tax will be dedicated to public education ($310 million over 5 years).

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$53.4	$60.5	$63.0	$65.4	$67.6	$309.9

- .5 cents of the 5.8 cents sales tax will be given back to the localities to use at their discretion ($138 million over 5 years).

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$23.7	$26.9	$28.0	$29.1	$30.1	$137.8

- .5 cents of the 5.8 cents sales tax will be given back to the localities for local transportation priorities ($138 million over 5 years)

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$23.7	$26.9	$28.0	$29.1	$30.1	$137.8

- 3.675 cents of the 5.8 cent sales tax will be will be **provided to the Transportation Trust Fund** ($1.02 billion over 5 years)

FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-Year Total
$175.7	$199.1	$207.0	$214.8	$222.2	$1,018.8

- **Even without the additional revenues generated by the Marketplace Equity Act, the Governor's 2013 Transportation Funding Package will provide the additional revenues necessary to address the state maintenance crossover and provide additional funding to passenger rail and transit.**

Allocations (tentative)

Under Governor McDonnell's Transportation Funding Plan, all modes of transportation – including highways, transit, passenger rail, aviation, and the port – will be the beneficiaries of additional funding.

- 85 percent of the funding generated by the 0.8 percent SUT increase will be dedicated to the Highway Maintenance and Operating Fund (HMOF) to eliminate maintenance crossover. The remainder will be dedicated to the Transportation Trust Fund (TTF) where it will be allocated based on formula: 4.2 percent to the Commonwealth Port Fund, 2.4 percent to the Commonwealth Aviation Fund; 14.7 percent to the Commonwealth Mass Transit Fund; $9.5 million the Commonwealth Space Flight Fund; and the remainder to the Highway Construction portion of the TTF.
- The first $300 million of the additional 0.25 percent sales tax commitment to transportation will be dedicated to Phase II of the Dulles Corridor Metrorail Extension Project. Thereafter, the additional funding shall be dedicated to the HMOF to eliminate maintenance crossover.
- 50 percent of the revenues generated by the $15 increase in the registration fees will be dedicated to the Intercity Passenger Rail Operating and Capital Fund, and 50 percent will be dedicated to the Commonwealth Mass Transit Fund.
- The revenues generated by the $100 Alternative Fuel Vehicle Fee will be dedicated to the Commonwealth Mass Transit Fund.
- Transportation's share of the revenues generated by the Marketplace Equity Act will be distributed to the Transportation Trust Fund, where they will be allocated pursuant to the formula: 4.2 percent to the Commonwealth Port Fund, 2.4 percent to the Commonwealth Aviation Fund; 14.7 percent to the Commonwealth Mass Transit Fund; and the remainder to the Highway Construction portion of the TTF.